

VZCZCXYZ0000
PP RUEHWEB

DE RUEHMO #2902/01 2750729
ZNY CCCCC ZZH
P 010729Z OCT 08
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 0174
INFO RUEHHD/MOSCOW POLITICAL COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 002902

SIPDIS

STATE FOR EUR/RUS; NSC FOR JELLISON

E.O. 12958: DECL: 09/29/2018
TAGS: ECON EINV ETRD PREL PGOV RS
SUBJECT: MEDEVEDEV'S ECONOMIC ADVISOR ACKNOWLEDGES
FINANCIAL CRISIS; DEFENDS RUSSIA'S WTO APPROACH

Classified By: Ambassador John R. Beyrle for Reasons 1.5 (b) and (d).

Summary

¶1. (C) In a September 25 meeting, President Medvedev's Economic assistant, Arkadiy Dvorkovich, told the Ambassador that Russia was also in the midst of a serious financial crisis and that the U.S. and Russia needed to work together to restore confidence to the world financial system. He defended Russian actions to reopen bilateral trade agreements, which he said were in response to the lack of progress in Russia's WTO accession. Dvorkovich questioned U.S. silence at WTO negotiations in Geneva and the postponement of G8 meetings. He said that after a delay caused by the Georgian conflict, the GOR was working to get Medvedev's economic reform agenda back on track. Finally, he noted that he plans to be in the U.S. twice in coming months and hoped to be able to meet with U.S. officials in Washington on one or both occasions. End Summary.

Financial Crises

¶2. (C) Dvorkovich acknowledged that the Russian economy was going through a serious financial crisis. He said Russia's problems were similar to those of the U.S. as tightening credit was threatening to spill over into the real economy. We faced common challenges and needed to coordinate action in order to restore confidence to the world financial system. In that regard, he noted that U.S. firms, including U.S. banks, were cutting back on their activities in Russia. To the extent that this was in reaction to economic conditions this was understandable. However, there were rumors that the USG had pressured U.S. firms to disinvest or reduce credit lines.

¶3. (C) The Ambassador responded that this was not U.S. policy. The Ambassador in turn took issue with Medvedev's recent comment about an economic "depression" in the U.S. That had been both inaccurate and unhelpful. A serious recession was possible but we were far from a depression.

¶4. (C) Dvorkovich took the point and added that the GOR was working to restore investor confidence in the Russian economy. For instance, the TNK-BP dispute had been settled and the case against Mechel closed. Dvorkovich also dismissed any comparisons between either of these cases and Medvedev's comments to the Polyus gold mining firm to stop "whining" about a lack of government support. Polyus had purchased the license without such guarantees and could afford to develop the deposit through its own resources.

15. (C) On WTO, Dvorkovich claimed that a few months ago, the GOR had decided to make a major push on accession. The results had been disappointing. Neither the U.S. nor the EU had provided a positive signal. In late July, the GOR had decided that under the circumstances it was not prepared to continue with unilateral commitments that it had made in the expectation of accession. What was needed at this point was a clear indication from the U.S. and the EU: do this and you will get in.

16. (C) The Ambassador responded that the politics of accession were difficult. No country had pushed harder the last two years than the U.S. to help speed Russia's accession. The U.S. and the EU both still saw Russia's accession as in everyone's long-term interests but to say that it was not going anywhere right now was a statement of fact. Compromise was needed to resolve the remaining issues and the space for compromise had been much reduced in the current climate. The Ambassador added that we were deeply concerned that the GOR was embracing protectionist measures in response to its WTO bid slowing. In particular, we had been concerned about the recent letter from the Veterinary Service (VPSS) that the GOR no longer recognized the bilateral agreement and its side letters. The MFA and Economics Ministry had claimed it was not government policy but nonetheless the signal the letter had sent was that Russia was no longer interested in WTO accession.

17. (C) Dvorkovich said Russia did still want membership. Accession would bring benefits both to Russia and to its

trading partners, including the U.S. However, Russia would not stand outside knocking on the door forever. There were few substantive issues preventing accession; in the GOR's view, it was a question of political will. In that regard, the GOR hoped to see signs of progress at the next round of negotiations in Geneva in early November and hoped that the U.S. would not remain silent again. If Russia was not welcome, he added, it would continue to operate as it was now, resolving disputes bilaterally. Dvorkovich added that Russia was also looking to preserve cooperation in the G8 and other multilateral fora. As G8 Sherpa, he was concerned by the U.S. prompted postponement of meetings. This did not hurt Russia so much as it did third countries that were counting on the world's leaders to work together to resolve pressing transnational issues such as climate change, or infectious diseases.

Economic Reform

18. (C) The Ambassador told Dvorkovich that he had been impressed with Medvedev's speech last February at the Krasnoyarsk Economic Forum and at the vision it had laid out of a prosperous, integrated and competitive Russian economy. The U.S. strongly supported this vision because it would be good for Russia and because it would be good U.S. economic interests. Our impression was, however, that the promised reforms appeared to have been sidetracked in the aftermath of the Georgian conflict.

19. (C) Dvorkovich responded that there had been a delay because of Georgia but that the plans were now moving forward again. For instance, a key package of anti-corruption measures that would bring Russia into compliance with international standards would be submitted to the Duma on September 30. In addition, the GOR was moving forward on legislation that would improve competition, on laws that would better support SMEs, and on increased budgetary support for higher education, health care, and infrastructure projects such as roads. The GOR was also introducing targeted tax reductions, though VAT reform had been out off until 2009.

¶10. (C) The Ambassador asked if Dvorkovich was concerned about the effect of all of these priorities on the GOR's budget. Dvorkovich said not all of the reforms would cost money; some were regulatory changes. In any event, in implementing these reforms, the GOR would be careful not to overspend.

U.S. Visits

¶11. (C) Dvorkovich said he had been invited to the USRBC Annual Conference in Washington the week of October 6-10. In addition, he would likely be in the U.S. in mid-November for a ceremony inaugurating a university-to-university partnership between Duke University's Fuqua Business School (where Dvorkovich was a student) and the Sokolov Business school in St. Petersburg. He planned to visit Washington during one or both of these trips and hoped to see a variety of U.S. officials.

¶12. (C) The Ambassador responded that he would also be in Washington for the USRBC Conference and would see what could be done about scheduling meetings. November, after hoped-for progress by Russia in meeting its Georgia commitments, might be a better opportunity.

Comment

¶13. (C) The same day he met with the Ambassador Dvorkovich claimed in a speech that Russia was well-positioned to emerge from the financial crises on "top" of the world's financial system. There was little such bravado in private. Instead, Dvorkovich, like Finance Minister Kudrin earlier in the week, seemed sobered by Russia's financial problems, the seriousness of which we believe caught him and other senior GOR economic policy-makers by surprise.

BEYRLE